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European Union

Agricultural Situation

Agreement Reached on Mediterranean Reforms

2004

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Report Highlights:
On April 22 the EU Council of Agricultural Ministers reached agreement on reforms concerning tobacco, cotton, olive oil and hops (known as the “Mediterranean Reforms”). Reforms will now go into effect in 2006 instead of 2005 as originally proposed by the Commission. These changes are a continuation of the CAP package of reforms agreed to in June 2003 that included partial decoupling.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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[E2]

The EU Commission proposed reforms for Europe's tobacco, olive oil, cotton and hops sectors in September 2003. The approach taken is of decoupling aid payments into the Single Farm Payment (SFP). These reforms are aimed at being budget neutral. It should be noted that tobacco, olive oil and cotton are particularly sensitive to the EU due to the areas where they are cultivated being highly dependent on the revenue (and subsidies) granted for these products. The hops scheme is geared primarily towards providing sufficient hop production for the beer industry. These reforms approved on April 22, 2004 are now expected to go into effect in 2006.

Tobacco Reform

The Council decided that de-coupling will be carried out gradually over a four year transition period, starting in 2006. In these four years, at least 40% of the tobacco premia have to be included in the de-coupled single payment for farmers. Member states may decide to retain up to 60% as a coupled payment. The coupled payment may be reserved for producers in objective one status, i.e., for regions or for farmers producing varieties of a certain quality.

After the four-year transition period, from 2010 tobacco aid will be completely de-linked from production. 50% will be transferred to the single farm payment and the remaining 50% will be used for restructuring programs under the rural development policy. For 2005 the current tobacco regime including the aids fixed for 2004 will apply. In 2006, the reform will start with the transfer of all or part of the current tobacco premium into entitlements for the single payment.

Cotton Reform

65 % of the budget envelope will be made available for de-coupled income aid. 35 % will still be a coupled payment destined to producers as an aid per hectare of cotton. The reference period will be 2000 to 2002.

The new area payment will be granted for a maximum area of 455,360 ha (370 000 ha in Greece, 85 000 ha in Spain and 360 ha in Portugal). In case the eligible area under cotton exceeds the maximum area, the aid per hectare will be reduced proportionally.

For Greece, the Council decided to split the base area of 370,000 ha, an increase from the originally proposed 340,000 ha. For the first 300,000 ha, an area aid of € 594.1/ha will be granted, for the remaining 70,000 ha the coupled aid will amount to € 342.85/ha. For Spain and Portugal, the original proposals were adopted: € 900 per ha for 85,000 ha in Spain and € 556 per ha for 360 ha in Portugal.

Of the €103 million previously paid to cotton processors, 22 million will be transferred to the Rural Development Fund. The remaining € 81 million will be divided between decoupled and coupled producer payments. As with other direct aids to producers, the aid per hectare of cotton would have to comply with horizontal obligations like cross compliance, modulation and financial discipline.

The Commission will establish a mechanism to monitor the impact of its cotton support and the reform on cotton production and trade. It will report on the results by 31 December 2009.

Olive oil reform

A minimum of 60 % of the average current production-linked payments (€ 2.3 billion per year for the EU15) will be decoupled under the single payment scheme for holdings larger than 0.5 ha. The reference period per country will be 2000-2002. However, the calculation of the amount paid for each olive farmer, will be based on the reference period 2000-2003. Olive farms smaller than 0.5 ha will see their payments completely decoupled from 2006.

The remaining aid paid (40%) can be retained by the member states as national envelopes to grant producers an additional olive grove payment. For simplification reasons, the olive grove payment will not be allocated below € 75 per aid claim. Member States may use up to 10% of their olive oil envelope for quality measures.

To avoid market imbalances, access to the single payment scheme will have to be limited to olive-growing areas existing prior to 1 May 1998 and to new plantings provided for under the programs approved by the Commission. To take account of support granted to new plantings after that date in France and Portugal the corresponding amount of € 1 million for France and € 19 million for Portugal will be added. The current regime will continue to apply for the marketing year 2004/05.

Hops Reform

The Council decided to de-couple the existing producer support at a level equal to at least 75 % of the existing aid scheme. However, the Council decision foresees the possibility for member states to grant a maximum of 25% to farmers and/or producer organizations, to take account of specific production conditions or specific circumstances in the production regions. For the 2005 harvest, the current hops regime with the aids fixed for 2004 will apply.

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Report Number	Title	Date Released
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E23121	EU CAP Reform Deal Approved	6/26/2003
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SP3014	Spain Cotton and Products Annual	6/04/2003
SP4006	Spain Tobacco and Products Annual	3/29/2004
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